

LETTER NO. 2.

Secretary of the Treasury of the United States, Washington, D. C.

SIR:—I have before me a "letter" from you, dated "Washington, D. C., August 26, 1892," in reply to questions asked you by Hon. John B. Allen, United States senate, and Hon. W. H. Crain, respecting my discussions of your official report of 1891, in my former open letter to you. In your report for 1891, page 28, you say:

- The stringency of the money market during the summer and autumn of 1930 was relieved by the prompt and effective measures of my predecessor, and happily disappeared without producing the grave consequences which were feared by the public; but its existence and the widespread apprehension which it caused induced a revival of the erroneous idea that the volume of money in circulation was not only inadequate to the needs of the country, but was very much less per capita than during the so-called flush times which followed the civil war.

Further down on the same page you call attention to "the mistaken opinion that there has been a severe contraction of the money volume," etc.

This statement brings up the entire subject of the contraction of the currency and its baleful results. But the first and main question is as to the status of the 7 80 treasury notes which played so important a part as currency, and as reserves in banks, setting free other currency, until they were retired by funding into gold-bearing registered bonds. You deny that they circulated as currency, and do not mention them as such in your tables. Yet you admit that \$44,000,000 of them, in the denomination of \$50, may have circulated as currency. Should you not in fairness to yourself have made some statement of this admission in your official report?

Secretary Fessenden says that he caused \$20,000,000 of the 7-30 notes to be paid out to the soldiers in the field at one time. You think this cuts no figure, as the soldiers "desired to receive them." It may fairly be supposed that the soldiers' families at home also "desired to receive them." And that the merchant at home and others "received them with alacrity" for family supplies and in the general course of business. The fact is, Mr. Secretary, your doctrine that the 7-30 notes did not circulate as currency because, as you claim, they were not a legal tender, will not hold good. The same doctrine would be as good against all the bank currency of the country, both state and national, because none of it is or has been a legal tender to private individuals. To imitate your own statement, "paymasters cannot in any true sense 'pay out' these notes to creditors." Hence, according to that logic, bank notes have never circulated in this country as currency. You count in your tables "state bank notes" and "national bank notes" as active circulating currency. Neither of them are legal tender on private debts, yet you reject the 7-30 notes for the alleged reason that they were not a legal tender; and, apparently you claim that they did not circulate though they were "readily taken in payments!" What an idea to come from a great public officer! Currency cannot circulate even if men accept it readily in payments! Your position is, that no one can in any true sense, "pay out" such notes! "Tell it not in Gath, publish it not in the streets of Ascalon!" It would be far truer to say that such notes cannot be presented from entering into circulation.

As to Secretary McCullough's reports, I followed Gen. Logan's statements and tables, taken from McCullough's reports and from other official documents. I preferred this to assuming the responsibility of tabulation myself.

But I am charged with "disarranging" Gen. Logan's tables, and that he separated the 7-30's in his tables from the rest of the notes. I shortened his tables

a single line to save repetition, but did not change his statements or results. I followed his general formula exactly, cutting off one single redundancy.

I consider Gen. Logan a very high authority on the republican side, and will now reproduce his tables of 1865 and 1866, with his arguments before and after them, and his table of 1873, constructed by him from the official reports cited by him.

On page 131, appendix to the *Congressional Record* of 1874, Gen. Logan says:

But there is one very material fact in this connection which senators appear to have entirely overlooked. They seem to forget that while our issues were largest in amount, they had no circulation worth mentioning in the south, but were confined to the north and west; but since that day 11,000,000 people have been added to that number to be supplied, and an area equal to an empire in extent. In comparing our condition and wants before the war with our condition and wants now, they forget that 4,000,000 slaves have been made free and are now learning the lessons of self-support and business life. These, sir, are no small items in the account. And those who talk so flippantly in regard to senators who are guided by facts would do well to consider them. And when they denounce our currency in such unmeasured terms, they would do well to remember that it has stood successfully a test that no other paper currency has ever undergone, with the whole amount nearly double what it is at present, confined almost exclusively to the northern states; and, while an unprecedented internal war was raging the gold brokers of New York were plying all their arts against it. When the war closed and the wall of separation was withdrawn, and the wants of a nation, increased in numbers nearly one-third, and an area nearly one-half, doubled in activity and operators, all to be supplied with a medium of exchange, just then we commenced a reduction in the volume of our currency, and when we take into consideration the amount in circulation in 1865 and 1866 and the amount in circulation now, it is no wonder that the people look upon this attempt at still further contraction as something alarming; and, in order to show the condition the country must be reduced to if the currency be not increased but contracted, I will give the following tables, showing the amount of currency in circulation in the years 1865 and 1866:

1865.	
National bank notes outstanding.....	\$171,521,903
Legal tender and other notes.....	698,918,800
State bank notes (estimated).....	58,000,000
Total.....	\$928,240,703
Seven-thirtieths of 1864 and 1865.....	830,000,000
Total.....	\$1,758,240,703
1866.	
National bank notes.....	\$280,263,811
State bank notes.....	9,748,022
Legal tender and other notes.....	608,870,822
Total.....	\$898,872,655
Seven-thirtieths.....	830,000,000
Total.....	\$1,728,872,655
Since which time contraction has taken place, the amount of currency now outstanding is only \$742,400,000. Add the \$25,000,000 of reserves since issued, making \$767,000,000, as shown in the following table:	
1873.	
National bank notes.....	\$339,061,700
State bank notes.....	1,888,800
Legal tender and other notes.....	401,527,300
Total.....	\$742,477,800
Seven-thirtieths outstanding.....	574,166,666
Total.....	\$742,072,000
Add reserve issued.....	25,000,000
Total.....	\$767,072,000
Amount of currency in 1865.....	\$928,240,703
Amount of currency in 1873.....	767,072,000
Total.....	\$1,711,778,703
Add the seven-thirtieths.....	830,000,000

Total contraction..... \$1,018,167.7

Senator will admit this was a contraction. We include the 7-30 bonds in the calculation. But let us exclude them, and we still find the contraction has been \$180,448,000 since that time. Now some on this senate floor tell me that I have had no such thing, and they try to make me believe it. Perhaps some senators will dispute these figures. If any one disputes them, refer him to a book written by a secretary of the treasury, on the currency, and put forth by him as such secretary, (pages 94 and 95). I also refer him to the report of the comptroller of the currency, commencing at page two (2), where the amount of currency for the various years is given. I have taken the figures of the comptroller of the currency, and the finance report of the secretary of the treasury and made this statement from them, and know that it shows correctly the amount of contraction which has taken place in the currency of the country since 1866. And, now, the larger amount used? It was circulation in the northern states alone, exclusive of the people of the south, for but little this money went into circulation in that section until after 1866, and after this contraction began.

On the same page (181) of the appendix to the *Congressional Record*, 1876, Gen. Logan says:

There is another great fact connected with this question which appears to be forgotten in this debate: that near the close of the war, and for a year or two after it, when our currency was much more abundant in proportion to the demand, and before the south was fully opened to its use, the system of cash payments became almost universal in the interior of the country, and in fact, in most business transactions everywhere. But the increased demand to supply the wants of the south, and in consequence of the system of contraction adopted by the then treasury of the treasury, forced the people to

pand the credit policy in a corresponding ratio, or to curtail all the works of improvement and manufacturing which had been undertaken during this period. It was, therefore, the contraction and increased want of currency, and not a superabundance, which produced the necessity for running in debt, of which there is so much said on this floor. Why, sir, the people were never freer from debt in proportion to the business done than in 1865, at the close of the war, when Mr. McCullough began his system of contraction, and at the very time eleven millions more people were to be supplied.

Was it to be supposed that the activity and energy which the adequate supply of money had put into operation, and which was giving prosperity and happiness to the country, would suddenly dwarf itself to suit financial notions without a severe struggle? The inevitable result was an expedient to meet the consequent want, and credit was expanded. At the very moment, above all others, when adequate supply was needed, the opposite course was adopted; and right here lies the true cause of the late panic, which resulted from a money famine, and not from an excessive supply.

On page 133 of the same document, Gen. Logan says:

Sir, turn this matter as we will, and look at it from any side whatever, and it does present the appearance of being a stupendous scheme of the money-holders to seize this opportunity of placing under their control the vast industries of the nation. Therefore I warn senators against pushing too far the great conflict now going on between capital and labor. It is not our duty to legislate exclusively for either, but, as far as possible, to try and harmonize the interests of the two. Capital rests upon labor; but when it attempts to press too heavily upon that which supports it in a free republic, the slumbering volcano, whose mutterings are beginning already to be heard, will burst forth with a fury that no legislation will quell. Both should be equally fostered and both equally protected.

Mr. Secretary, you say you are unable to account for the strange statement attributed to Gen. Spinner, that "the 7-3 notes were intended, prepared, issued and used as money."

With all due deference, Mr. Secretary I would suggest that you read the law authorizing their issue. Let us take as an example the law of June 30, 1864. Section 2 reads as follows:

SEC. 2. And be it further enacted, That the secretary of the treasury may issue on the credit of the United States, and in lieu of an equal amount of bonds authorized by the preceding section, and as part of said loan, not exceeding \$300,000,000, in treasury notes of any denomination not less than \$10, payable at any time not exceeding three years from date, or, if thought more expedient, redeemable at any time and three years from date, and bearing interest not exceeding the rate of 7.3 per centum payable in lawful money at maturity, or at the discretion of the secretary semi-annually. And the said treasury notes may be disposed of by the secretary of the treasury, on the best terms that can be obtained, for lawful money; and such of them as shall be made payable, principal and interest at maturity, shall be a legal tender to the same extent as United States notes for their face value, excluding interest, and may be paid to any creditor of the United States at their face value, including interest, or to any creditor willing to receive them at par including interest; and any treasury notes issued under the authority of this act may be made convertible at the discretion of the secretary of the treasury into any bonds issued under the authority of this act. And the secretary of the treasury may redeem and cause to be cancelled and destroyed any treasury note or United States notes heretofore issued under authority of previous acts of congress, and substitute in lieu thereof, an equal amount of treasury notes such as are authorized by this act of any other United States notes: *Provided*, That the total amount of bonds and treasury notes authorized by the first and second sections of this act shall not exceed \$400,000,000, in addition to the amounts heretofore issued; nor shall the total amounts of United States notes, issued or to be issued, ever exceed \$400,000,000, and such additional sum not exceeding \$50,000,000, as may be temporarily required for the redemption of temporary loans; nor shall any treasury note bearing interest, issued under this act, be a legal tender in payment or redemption of any note issued by any bank, banking association, or banker, calculated or intended to circulate as money.

In "Treasury Department Document No. 949, Loans and Currency," 1886, page 201, I find the following:

SEC. 3590. Treasury notes issued under the authority of the acts of March 3, 1863, chapter 71, and June 30, 1864, chapter 172, shall be legal tender to the same extent as United States notes for their face value, excluding interest.

Then follows the usual provision that the said notes shall not be used to pass in bank circulation.

● This fixes the status of \$200,000,000 the 7.30's, as stated by Gen. Spinner, that they were "intended, prepared, issued and used as money."

The act of March 3, 1865, authorizing \$600,000,000 additional 7-30's, precisely like the above, except as to the legal tender quality, and on these two acts were issued \$829,992,500. (See Messages and Documents, Abridgment 1873-4, page 9)

There is no use quibbling, Mr. Secretary, as to what parts of the public debt have been used as currency. All forms of paper obligations issued by the government are set down by the treasury officers as "public debt." Part of the same is susceptible of transfer from hand

hand, and are, hence, used as currency or money. That which cannot be so passed from hand to hand in the common transactions of business cannot be fairly classed as currency or money. By this true test, the subject is rendered exceedingly simple. All forms of certificates, with or without interest, all United States notes, and all forms of treasury notes, with or without interest, are and were uniformly used as money. The coupon bonds, usually known as treasury notes, like the old 7-30's, were a very valuable currency. They circulated as money, and they took the place of legal tenders in the bank reserves, as described by President Grant in his message of December 1, 1873, thus setting free the legal tenders.

I now call your attention, Mr. Secretary, to the testimony of the leading republican daily of the state of Kansas. A journal which has bravely espoused your cause, and is just now giving me "Hall Columbus" in this present discussion. I can prove my case by one of your most obtrusive and uproarious witnesses, it seems to me that I have established my point. The Topeka *Capital* recently discussed, classified and arranged the circulating currency of the country very minutely and carefully.

April 4, 1890, replying to a correspondent, the *Capital* said:

There is still another very interesting feature about our circulation, beginning in 1906, when the actual "currency" circulation was upward of \$50 per capita. But as our correspondent does not inquire anything beyond the "last ten years" we begin at 1878, just when the secretary of the treasury begins in his message concerning the circulation. There has been an actual decrease per capita since 1872, and a large relative increase in comparison with the business development of the country.

April 17, 1890, replying to another correspondent, the *Capital* resumed the subject as follows:

Bonds due in 1968.....	\$ 8,908.34
" " 1967.....	9,415.92
Compound interest notes.....	158,012.14
Seven thirty treasury notes.....	806,281.50
Temporary loan, ten days' notice.....	120,176.15
Certificates of indebtedness.....	26,391.00
United States notes.....	400,891.00
Fractional currency.....	27,070.87
Gold certificates of deposit.....	10,713.11
Total.....	\$1,550,500.93

All these different kinds of notes, certificates, etc., amounting to \$1,550,506,210 were used for currency. National bank circulation June 30, 1898, \$361,419,908. Add this to the other and we have a total active "currency" circulation at the time of \$1,850,239,709, which, estimating the population at 35,000,000, gives a per capita circulation of \$52.

Demand notes redeemable in coin.....	\$ 288.1
One year 5 per cent. notes.....	2,151.2
Two-year 5 per cent. notes.....	5,309.3
Two-yr. 5 per cent. compound notes.....	1,075.5
Three yr. compound interest notes.....	172,369.6

Total.....	\$181,006.8
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(In page 164 of the same report appears the

Currency has been retired, counted and destroyed during the fiscal year as follows:

Old issue demand notes.....	\$	200.440
New issue legal tender notes....		8,716.135
One-year 5 per cent. notes.....		6,094.308
Two-year 5 per cent. notes.....		2,506.127
Two-yr 5 per cent. coupon notes..		33,383.097
Six per cent. compound int. notes		81,246,829
Gold certificates.....		64,913,500
First issue fractional currency....		3,897,307
Second.....		7,598,479
Third.....		5,414,844
Discounted on above for multi-		17,200

Don	17,813
Total	\$211,230,515

If \$211,299,515.41 of "currency" were destroyed during the fiscal year, and if \$181,006,804 of "currency" was on hand and "not in circulation," there must have been the amount of these two items (\$299,336,319.41) in circulation at the beginning of the year. If this be added to the given amount, the actual circulation at the end of the fiscal year (June 30, 1886, we have a grand aggregate for the beginning of the year—\$1,851,229,760 plus \$299,336,319.41 equals \$2,242,576,079.41—a per capita circulation of 96¢ at the close of the year, July 1, 1885.

Mark you, this is not my statement. is the testimony of one or your republican witnesses, who, on August 30, 1866, speaking of your "letter," says:

The people of the Fifth district in this state will be particularly interested in this exposure of Congressman Davis' attempt to falsify the speech of Gen. Logan.

I congratulate you, Mr. Secretary, this leading republican witness. I am much pleased that he is on your side.